



# Metals Exploration

10 August 2009

## Metals Exploration - location, location, location

That's what they say about property development. Certainly, location has been a major driver of the Mayfair-centred, luxury property developments master-minded by Christian and Nick Candy. Addresses such as One Hyde Park have a certain cachet.

Following various bank meltdowns and the collapse of the housing market, Christian Candy has taken the bold decision to diversify into property development at a rather different address. "EP-II-000013, Nueva Viscaya, Luzon, the Philippines" doesn't have quite the same ring to it as "One Hyde Park", but nonetheless it is the chosen location for the next development planned by Christian Candy.

But not a block of luxury apartments this time. Nor an ambitious remodelling of a telephone exchange. Not even a hospital conversion, but a gold and molybdenum mine at Runruno on Luzon island in the northern Philippines. In the last 5 months Guernsey-based Solomon Capital, Christian Candy's own private equity vehicle, has invested £11.5 million in Metals Exploration Plc (LSE: MTL), the holder of the licence to develop Runruno.

At the time of Solomon Capital's first investment of £3.5 million in January, Christian Candy said "The Metals Ex transaction is Solomon Capital's first significant investment. With more than £200M in liquid funds, Solomon Capital is in a strong cash position and is therefore looking for opportunities outside, as well as inside, the property sector." At the same time, a sister company of Solomon Capital agreed an £8 million debt facility for drawdown as and when necessary, and Tim Dean, a Solomon director, joined the Metals Exploration board.

A further infusion of capital was announced in early May, when Solomon Capital agreed to take the lion's share of a £12 million fundraising by injecting a further £8 million. Because this would result in Solomon Capital owning 44.1% of the company, their share of the placing was subject to approval of a Rule 9 waiver by the Takeover Panel and shareholders at an EGM. The resolution received strong support from the non-Solomon shareholders, with over 51% of those entitled voting, and more than 99.9% of the votes cast in favour.

In the meantime, almost £6 million has come into the company's coffers recently, with the balance in September. This will enable Metals Exploration to cancel the debt facility agreed in January, whilst still having sufficient funds to progress the Runruno property to a full feasibility study, due for completion by the end of January 2010.

So what is the attraction of Runruno for Christian Candy's Solomon Capital Limited? Why, with gold projects all over the world struggling for development cash, did they choose a 2 million ounce project in the Philippines? Christian Candy provided part of the reasoning behind their decision: "Solomon Capital (a private equity business) has now committed £11.5 million to Metals Ex. There was belief that the company was significantly undervalued with substantial upside potential. I have visited the site at Runruno and seen the potential for myself."

**Price:** 14.50p

**Market Cap:** £39.11m

### 1 Year Share Price Graph



### Share Information

**Code:** MTL

**Listing:** AIM

52 week	High	Low
	17.50	6.50

**Sector:** Gold Mining

**Website:** [www.metalsexploration.com](http://www.metalsexploration.com)

### Company Synopsis:

*Metals Exploration Plc's primary objective is to discover and develop high value mineral resources within the Southeast Asia - Pacific region with particular emphasis on the Philippines. The Company is focused on increasing shareholder value through the acquisition, development and production from mineral resources, particularly gold, base metals and nickel. A team of well qualified directors with a mix of complimentary skills and experience makes Metals Exploration a versatile explorer with a current portfolio of outstanding gold, base metals, and nickel projects. The Company has an aggressive strategy of reviewing opportunities as they arise with the aim of expanding and adding to its existing projects and resource base.*

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Further reasons include the time honoured “location, location, location” mantra – firstly, the Philippines sits atop \$1 trillion worth of unexplored gold, copper, nickel and zinc potential, and the government is actively seeking overseas investment to help them develop these resources, to the tune of \$10 billion of mining investment by 2013. Mining rules and regulations are clearly set out, and there is a well-defined, though slow, path to approval.

Fortunately, Runruno will be able to take advantage of a Financial and Technical Assistance Agreement, as more than US\$50 million will be invested in the project, which will entitle Metals Exploration, through its local 100% controlled subsidiary FCF Minerals Corporation, to retain full ownership, instead of the 40% allowed to overseas companies under the more common Mineral Production Sharing Agreement. Few FTAs have been issued in the Philippines, and the progress of Metals Exploration's application as far as the desk of the President for final signature in under a year is a feather in the cap of the management.

But even more important than the basic Philippines address is the potential of Runruno's specific location. Not just for the successful development of a mine based on the existing resource, but for the entire area. Runruno sits on the western edge of a 4km diameter alkaline volcanic complex, of which less than 15% has been properly explored, and which has remarkable geological similarities to the multi-million ounce Cripple Creek mining district. This similarity was confirmed last year by Dr. Eric Jensen PhD, a recognised expert on alkaline intrusive-associated gold mineralisation, especially Cripple Creek style deposits. His conclusions stated: “In short, the Runruno gold deposit is remarkable in terms of its shared characteristics with other alkaline epithermal deposits, including Cripple Creek, Colorado, and its additional potential as MTL's exploration activities continue and expand.

“Significant potential for additional discoveries of mineralization seems obvious, as multiple zones of alteration have yet to be evaluated, several areas of current small-scale mining activities have not yet been drill tested, drilling has not been conducted at depths greater than 180 meters in most areas, and the “feeder zones” for the flat-lying zones of mineralization that constitute the existing resource have yet to be identified.”

And the third key location element is infrastructure. Whilst Runruno cannot guarantee a bus stop outside your front door and a supermarket on the corner (yet!), the locality is well served by roads and ample power will be available from the regional hydroelectric scheme.

The currently defined JORC-compliant resources at Runruno are 2.0Moz of gold and 34.4Mlb of molybdenum – of which 756,000oz Au and 17.2Mlb Mo (over 37% of the contained gold, and almost 50% of the contained molybdenum) are now classified as Measured and Indicated Resources. At present, this resource extends along 1.5 km of strike, and consists mostly of flat mineralised lenses lying some 100-150 metres below surface in sloping ground, around which an optimised pit shell has been modelled. Further along strike to the north east, a smaller satellite pit model, also containing flat-lying mineralisation, provides evidence that in spite of the intrusion of two vertical structures within the main pit shell at its northern edge, the continuity of the orebody does continue beyond them.

CEO Jonathan Beardsworth is fairly confident that all Metals Ex need to do is to drill out the area between the two pit models to significantly extend the resource to the north east. That is all without any further discoveries in the remainder of the Runruno system, which, Beardsworth says, “we haven't even begun to explore properly yet”.

A pre-feasibility study released in November 2008 estimated that Runruno could mine and treat 3 million tonnes of ore per annum, grading 2.09 g/t Au and 0.056% Mo, to produce 183,000oz of gold and 1.7Mlb of molybdenum a year during an initial mine life of nine years. Mining will be straightforward using a conventional truck and shovel operation. Waste rock will be used first to construct the tailings facility, but thereafter will become backfill for the mined-out areas of the pit, which will reduce the environmental footprint of the mine.

Ore from the open pit contains both free gold – which will be liberated by simple gravity separation – and sulphides, which after conventional flotation will be processed using BIOX® oxidation and carbon in leach to give just over 90% total recovery to gold doré. A separate circuit will extract the molybdenum, where about 45% recovery is anticipated. Capex for both gold and moly operations is forecast at US\$208 million (including \$22.8 million contingency) and anticipated cash operating costs are US\$462 per ounce before any molybdenum credits are applied. If the price of molybdenum remains low the co-product credits will not reduce operating costs to the same extent as cited in the recent forecasts, but should prices improve to \$20-25 per lb by the



time the mine comes onstream, then the forecasts will hold good, and could take the headline recovery price down to \$285 per ounce of gold.

There's a lot of work to do between now and the end of the year to finalise a BFS, including masses of additional and infill drilling to firm up the mineable reserves, and completion of a full environmental impact study, but once completed and approved the company estimate a build time of some 18-24 months, leading to first production in 2012.

In the meantime, a huge amount of community work has been achieved locally by the Runruno Livelihood Foundation (RLF), an independent entity working alongside Metals Exploration's subsidiary FCF Minerals and is funded partly by Metal Ex Enshrined in the Philippines mining charter is the requirement for mining operations to provide tangible and sustainable benefits to their local communities, and Metals Exploration take their responsibilities in this regard very seriously. Current projects managed by the RLF are wide ranging, embracing fields as diverse as the retraining of many hundreds of unemployed youths, through water provision and tree planting to backyard farming technology training, promotion of local crafts and provision of schools and medical assistance.

So the location is right, the infrastructure is there, the community are supportive, the resources are plentiful with potential for more to come. The company is fully funded to complete the BFS, and a capex requirement of under \$250 million is not over-demanding even in the current credit climate.

So will it sell? Will Metals Exploration once again catch the imagination of the markets? Will the current disconnect between share price and fundamentals be corrected? That remains to be seen, but at today's fully diluted market cap of under £33 million, clearly Christian Candy thinks he's on to a winner!

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